S&P 500 Weekly Forecast 2/17

From: SqueezeMetrics <info@sqzme.co>
To: SqueezeMetrics <info@sqzme.co>
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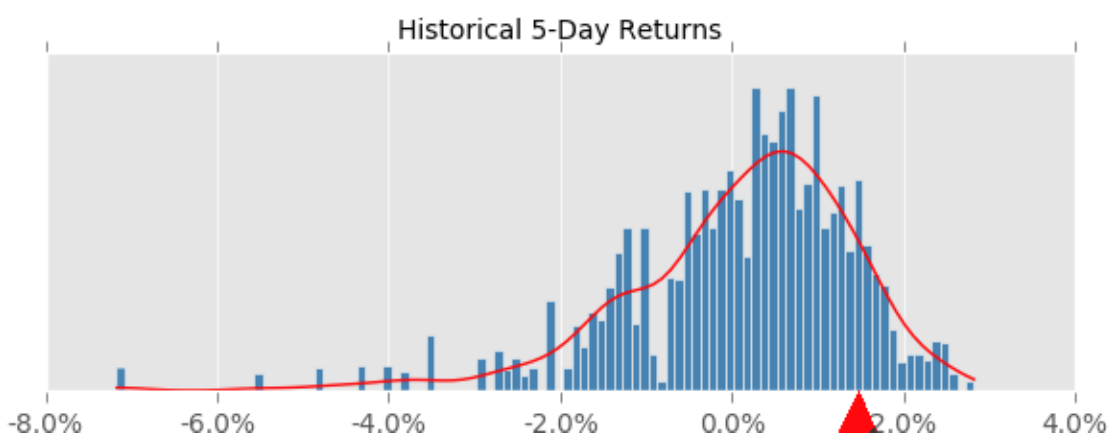
[Reports that gremlins have stolen inline images. If at first you don't succeed...]

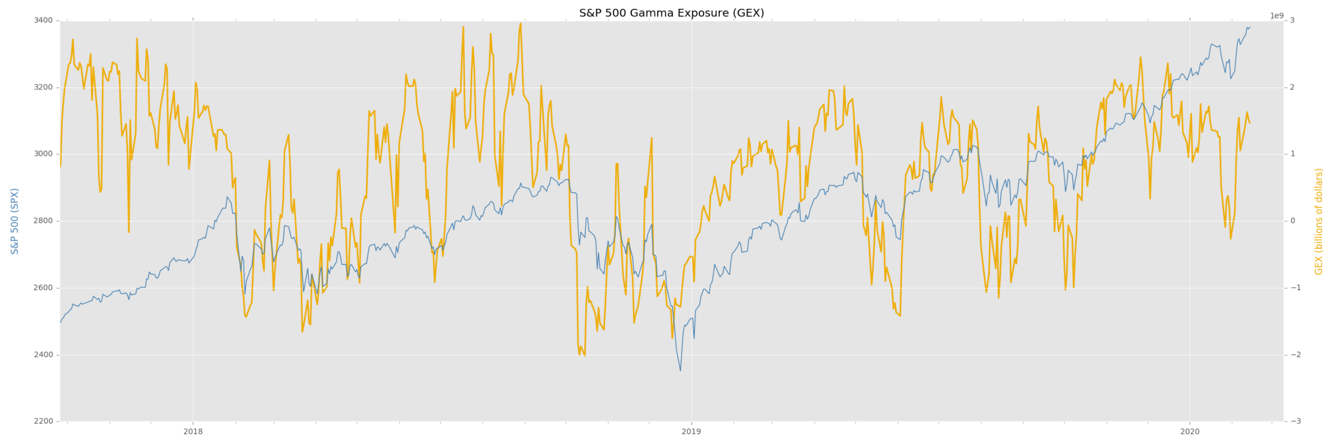
Hey everyone,

Last weekend, we were grudgingly acknowledging that, with GEX slightly above $1bn, we were "in a region of relative stability." This came with an ample GEX floor in place and an ostensibly bullish projected distribution of returns (median 0.30%). This gave way to a substantial **1.6%** gain for the index.

Worth noting: Monday's bullish price-action was an effect of sold call positions (the usual stuff) *being rolled up and out*. This is almost always the reason for a trending day in SPX when GEX is high (you may have noticed that GEX itself actually *fell* on Tuesday -- this is why).

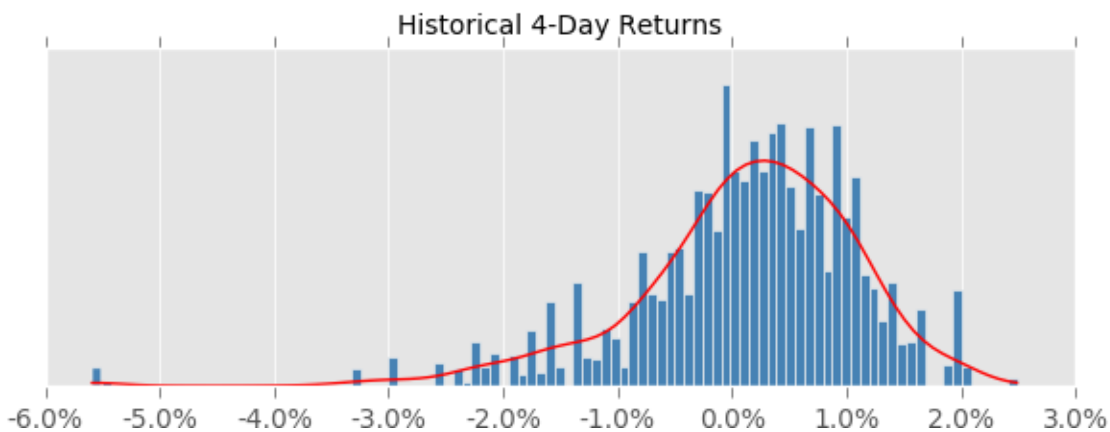


But even with one unusually bullish day, the rest of the week conformed nicely to the playbook of a high-GEX market -- with tight, mean-reverting tendencies and no surprises.



Since there was no dramatic option expiration this week, GEX remains elevated, having closed at $1.47bn -- solidly "high GEX." Being that this week has a monthly expiration, you'll probably be hearing from us on Thursday about how the expiration will affect GEX. As of right now, GEX without the Friday-expiring options would be [almost exactly] $1bn. So unless the index creeps lower this week, we don't expect the OpEx to be a big risk factor.

Since it's a short week, the distribution below is a 4-day forecast. It should be a very familiar shape. Moves past -1% or +1.5% would be fairly exceptional. The left tail is ridiculously long but very low-probability, the peak is very pronounced, and the mean and median are positive. In other words, "low volatility upside drift."



In numbers, this paragon of high-GEX distributions has a 4-day mean return of **0.12%**, a median of **0.23%**, and a standard deviation of **0.99%**. In volatility terms, that's a 1-week vol of **7.90%**. Further out, we project a 1-month vol of **9.30%**.

Being that this is an OpEx week, it seems likely that GEX will be able to remain elevated, and volatility suppressed. And that's despite what feels like a laundry list of unappreciated geopolitical risk. We can reassess this later in the week, but for now it seems wise to just bet on gamma continuing to overwhelm any other market impulses. Perhaps after Friday that can change more easily.

From the perspective of an SPX/SPY option trader, this means that we want to be selling more ATM volatility or ITM put spreads (the usual). So, short put spreads, short straddles, iron condors, etc., should do the trick. If you take a look at the vertical skew plots at the bottom of the attached PDF, you'll see what we mean: The 5-DTE 3400-strike puts are priced around 8%, but according to GEX are worth more like 5%.

For the long SVXY / short VXX crowd, you're in luck: You don't have to do anything. With GXV at 7.14 and VIX near 14, you should be short volatility, just like you are 75% of the time. Since VIX is high relative to our volatility expectations, it's unlikely that GXV1D will overtake VIX even on a sharp move down -- VIX would probably stay above GXV. Any losses sustained from this type of movement are part and parcel of being short VIX futures. All we ever want to avoid are losses sustained from violent, unexpected volatility, which tends to arise only when GXV is higher than VIX.

Fresh Picks

The 52 (-39) low-GEX picks have a mean 20-day projected return of **1.08%** and a standard deviation of **7.88%**. The 30 (+14) high-GEX picks have a mean 20-day projected return of **1.09%** and a standard deviation of **6.59%**. Being that it's "Gamma Week," we usually expect to find decent high-GEX trades (and then once the expiration is past, to find more low-GEX). Snippets of charts are attached, as always.

Last week, we had BMY as a high-GEX highlight, and it's worth a mention again, since it's performing as anticipated.

> The only high-GEX highlight that we'd consider is **Bristol-Myers Squibb** (BMY), but being that its high GEX corresponds to low option prices (see that 30-day IVs are close to 20%), we don't really see an opportunity in shorting any options here.

But for a bit more excitement, there's also **Expedia** (EXPE). After an 11% jump, EXPE had its GEX leap above 200k. With daily volume around 2.5mm on average, that means around 8% of daily volume will be pushing against any prevailing motion in the event of any move +/-1% in the stock. This is significant, and high GEX levels in the past have frequently had stifling effects on that stock. With that said, note that Friday's volume was over 10mm shares, and when volume is higher, high GEX means less, since there's more volume to potentially overcome the option impact.

There are no low-GEX candidates that really tickle our fancy right now, but we want to definitely give AAPL another honorable mention. Since little has changed for AAPL this past week, this is still relevant:

> As for a low-GEX opportunity, there are a couple interesting ones, but none as interesting as **Apple** (AAPL). Apple has gone up a lot lately (if you haven't noticed) and the current GEX at around zero is highly unusual for a strong stock at its highs. The implication, we think, is that a lot of puts have been bought. And generally when a lot of puts have been bought, IVs are high, and it's not really a great idea to buy puts. But in the case of AAPL, IVs aren't really all that high. On a 30-day timeframe, it's mid-20s. For us, this feels interesting, since long gamma (in this case, puts) can cause volatility, and if speculators are betting on AAPL falling, it could become self-sustaining pretty quickly from the gamma. So we'll probably buy some AAPL puts, thinking that there could be a decent reward possible with GEX near zero -- even if the probability of payoff itself isn't high.

Happy Gamma Week!

The SqueezeMetrics Team